



MUDAN AUTOMOBILE SHARES COMPANY LIMITED*

牡丹汽車股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 8188)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM. The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcement in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM listed issuers.

The Stock Exchange takes no responsibility for the contents of this announcement (this “Announcement”), makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Announcement.

This Announcement, for which the directors (the “Directors”) of Mudan Automobile Shares Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this Announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this Announcement misleading; and (3) all opinions expressed in this Announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* For identification purpose only

SUMMARY

- The company recorded a turnover for the year of RMB513,137,945, representing a decrease of approximately 19.64% as compared with the same period last year.
- The company recorded a loss for the year of RMB94,202,962 and loss per share is RMB0.33.
- The Board of Directors does not recommend the payment of a final dividend for the year ended 31 December 2005.

As mentioned in the Announcement of Mudan Automobile Shares Company Limited (the “Company”) dated 3 March 2008, when the new Board of Directors (the “Board” or the “Directors”) officially took office on 3 March 2008, it immediately started investigating the relevant situation of the Company and at present they discovered various problems, including:

- (1) The Company was suspended since 29 March 2005 for a long time;
- (2) The 2005 Annual Report, 2006 First and Third Quarterly Report, Interim and Annual Report, 2007 First and Third Quarterly Report and Interim Report of the Company have not been released so that 2007 Annual Report cannot be released as scheduled;
- (3) As of 17 March 2008, there are altogether 11 law suits against the Company;
- (4) The Company lacks professional guidance in terms of corporate governance, there are problems such as the lack of communication with Hong Kong Stock Exchange Limited (the “Stock Exchange”) and shareholders.

Since the Company suspended production in October 2007 (retained only a small portion of sales business), the number of staff after November 2007 was substantially reduced to approximately 40 (retained only a small number of finance, personnel and administrative key personnel), the work of the Board of Directors of the current tenure is seriously restricted.

After the Board of Directors officially took office, it mainly carried out the following work:

- (1) Enhanced communication with Hong Kong lawyers and auditors, actively sought professional support.
- (2) Acquired in-depth understanding of the situation of the Company, and made timely disclosure of the relevant information via the Stock Exchange.
- (3) Liaised with the Auditors and made great efforts to attempt to release such Auditors’ Report for 2005, 2006 and 2007 as soon as possible.

- (4) Cooperated with the majority shareholders actively and maintained contact with potential purchaser, sought the opportunity to resume trading as well as hired professional advisers to provide advice with respect to restructuring of assets and resumption of trading.

The current Directors will act honestly and diligently for the maximum interests of the Company and the shareholders, but will not guarantee the ultimate results. Shareholders and investors of the Company should act carefully when dealing with the shares of the Company.

Regarding the 2005 Auditors' Report of the Company, the Directors conducted careful investigations on the financial information required for the Auditors' Report. The Directors considered that the preparation of the Auditors' Report on a going concern basis is the most appropriate. The Directors considered the 2005 Auditors' Report has adequately disclosed the relevant state of affairs of the Company as of today. The Company had not withheld any information from the auditors.

Information in the Announcement regarding the business review and outlook of the Company will be presented after the Board has reviewed the historical information of the Company.

In order to disclose the relevant information as soon as possible, the Board will disclose such information according to the progress of the work. Any amendment required to be made or information needed to be disclosed found during the follow-up work will be amended and disclosed in a timely manner.

RESULTS

The Board hereby announces the audited annual results of the Company for the year ended 31 December 2005, together with the comparative figures of 2004 as follows:

INCOME STATEMENT

For the year ended 31 December 2005

(Expressed in Renminbi)

	Notes	2005	2004
Turnover	4	513,137,945	638,563,780
Cost of sales		<u>(495,583,573)</u>	<u>(581,899,584)</u>
Gross profit		17,554,372	56,664,196
Other operating income		6,111,464	19,354,223
Distribution expenses		(31,862,812)	(32,930,753)
General and administrative expenses		(79,575,935)	(28,649,194)
Other operating expenses		(4,776,750)	(849,146)
Net finance income (costs)		<u>2,106,514</u>	<u>(8,977,575)</u>
(Loss)/profit before taxation	5	(90,443,147)	4,611,751
Income tax expenses	6	<u>(3,759,815)</u>	<u>(6,430,712)</u>
Loss for the year attributable to the equity holders of the Company		<u>(94,202,962)</u>	<u>(1,818,961)</u>
Dividends	7	<u>—</u>	<u>—</u>
Loss per share – basic	8	<u>(0.33)</u>	<u>(0.01)</u>

BALANCE SHEET

at 31 December 2005

(Expressed in Renminbi)

	<i>Notes</i>	2005	2004
Non-current assets			
Property, plant and equipment		212,432,426	226,331,755
Construction in progress		–	60,000
Net deferred tax assets		–	3,759,815
		212,432,426	230,151,570
Current assets			
Inventories		78,891,231	87,388,888
Trade and other receivables	9	100,107,497	166,635,340
Amount due from a shareholder		125,899,382	203,176,037
Amount due from a related company		–	3,412,918
Pledged deposits		318,346,739	263,286,176
Bank balances and cash		107,288,298	58,547,175
		730,533,147	782,446,534
Current liabilities			
Short-term bank loans		170,100,000	166,850,000
Trade and other payables	10	157,434,090	161,793,010
Bills payables	10	351,658,940	320,501,232
Amount due to a shareholder		2,684,850	7,093,104
Amount due to a related company		14,657	–
Income tax payable		1,232,552	2,317,312
		683,125,089	658,554,658
Total current liabilities		683,125,089	658,554,658
		47,408,058	123,891,876
		259,840,484	354,043,446
Capital and reserves			
Share capital		284,800,000	284,800,000
Statutory surplus reserve		15,421,641	15,421,641
Statutory public welfare fund		15,421,641	15,421,641
(Accumulated losses) retained earnings		(55,802,798)	38,400,164
		259,840,484	354,043,446

Notes:

(Expressed in Renminbi)

1. GENERAL

The Company was established in the People's Republic of China (the "PRC") on 18 September 1998 as a joint stock company with limited liability and its shares are listed on the Growth Enterprise Market ("GEM") of the Stock Exchange. The Company's principal activities are the manufacturing and distribution of automobiles.

The address of the registered office and place of business of the Company is No. 30 Lehong Road, LeYu Town, Zhangjiagang City, Jiangsu Province, PRC. Zhangjiagang Municipal Public Assets Management Co., Ltd, which is a state-owned enterprise established in the PRC, is the Company's ultimate holding company.

The financial statements are presented in Renminbi ("RMB"), which is same as the functional currency of the Company.

These financial statements have been approved for issue by the Board of Directors on 10 April 2008.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

As mentioned in "Contingent Liabilities" below, the Company had involved in a number of litigations with its suppliers. Part of the bank accounts of the Company have already been frozen following filing of the lawsuits. Up to 17 March 2008, the amount frozen is about RMB2,920,437. As at the date of this announcement, the Company does not have enough cash to satisfy in full the claims stated in the writs above. Also, the Company had been suspended its business production since October 2007. As a result, the Company should allot a significant fund for payment to staff for compensation of early termination of employment and compensation and surcharge should be paid to suppliers for those litigations. The amount would be paid to staff for compensation of early termination of employments is about RMB 57 million. However, the amount indemnity should be paid to suppliers and any other possible effect to those litigations are uncertainly and difficult to quantify.

The Board announces that on 25 February 2008, two substantial shareholders of the Company, namely, Jiangsu Mudan Automobile Group Co., Ltd. ("Jiangsu Mudan") and 張家港市直屬公有資產經營有限公司(Zhangjiagang Municipal Public Assets Management Co., Ltd., "ZMPAM"), which hold approximately 35.23% and 33.47% of the entire issued share capital of the Company respectively, and two minority shareholders, 張家港市牡丹客車配件有限公司(Zhangjiagang Municipal Mudan Bus Accessories Co., Ltd., "ZMMBA") and 張家港市牡丹汽車附件有限公司(Zhangjiagang Municipal Mudan Car Accessories Co., Ltd., "ZMMCA") have signed their respective memorandum and agreements for the intended disposal of their entire respective interests to the proposed acquirers subject to fulfillment of certain conditions.

The directors consider that in preparing the financial statements of the Company they have given careful consideration to the impact of the future liquidity of the Company and the continuous financial support from the proposed acquirers to resume the business production and have taken into consideration all information that could reasonably be expected to be available. On this basis, in the opinion of the Board it is appropriate to prepare the financial statements of the Company on a going concern basis.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values as explained in the accounting policies as set out below:

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (the “IFRSs”) issued by the International Accounting Standards Board (the “IASB”). IFRSs include International Financial Reporting Standards and interpretations.

These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

In the current year, the Company has adopted all of the new and revised IFRSs, and International Accounting Standards (the “IASs”) issued by the IASB and Interpretations issued by the International Financial Reporting Interpretation Committee (“IFRIC”) of the IASB that are relevant to its operation and effective for annual reporting periods beginning on or after 1 January 2005. The adoption of these new and revised IFRSs, IASs and Interpretation has had no material effect on how the results and financial position for the current or prior accounting period as prepared and presented. Accordingly, no prior year adjustment has been required.

Summary of the significant accounting policies adopted by the Company is set out below.

At the date of authorisation of these finance statements, the Company has not early applied the following IASs, and Interpretation that have been issued but not yet effective. The directors of the Company anticipate that the application of these IASs and Interpretation will have no material impact on the financial statements of the Company.

IAS 1 (Amendment)	Capital Disclosures ¹
IAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures ²
IAS 21 (Amendment)	Net Investment in a Foreign Operation ²
IAS 23 (Revised)	Borrowing Costs ³
IAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions ²
IAS 39 (Amendment)	The Fair Value Option ²
IAS 39 & IFRS 4 (Amendment)	Financial Guarantee Contracts ²
IFRS 6	Exploration for and Evaluation of Mineral Resources ²
IFRS 7	Financial Instruments: Disclosures ¹
IFRS 8	Operating Segments ³
IFRIC 4	Determine whether an Arrangement Contains a Lease ²
IFRIC 5	Rights to Interests arising from Decommissioning Restoration and Environmental Rehabilitation Funds ²
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment ⁴

IFRIC 7	Applying the Restatement Approach under IAS 29 – Financial Reporting in Hyperinflationary Economies ⁵
IFRIC 8	Scope of IFRS 2 ⁶
IFRIC 9	Reassessment of Embedded Derivatives ⁷
IFRIC 10	Interim Financial Reporting and Impairment ⁸
IFRIC 11	IFRS2-Group and Treasury Share Transactions ⁹
IFRIC 12	Service Concession Arrangements ¹⁰
IFRIC 13	Customer Loyalty Programmes ¹¹
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction ¹⁰

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 January 2006.

³ Effective for annual periods beginning on or after 1 January 2009.

⁴ Effective for annual periods beginning on or after 1 December 2005.

⁵ Effective for annual periods beginning on or after 1 March 2006.

⁶ Effective for annual periods beginning on or after 1 May 2006.

⁷ Effective for annual periods beginning on or after 1 June 2006.

⁸ Effective for annual periods beginning on or after 1 November 2006.

⁹ Effective for annual periods beginning on or after 1 March 2007.

¹⁰ Effective for annual periods beginning on or after 1 January 2008.

¹¹ Effective for annual periods beginning on or after 1 July 2008.

4. TURNOVER

Turnover represents revenue arising from the sales of automobiles net of value added tax, discounts and returns.

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

Business segments

The Company had only one business segment for two years ended 31 December 2004 and 2005, which were production and sale of automobiles, no separate disclosure of segmental income statement and balance sheet would be made.

Geographical segments

Segment revenue based on the geographical location of customers is as follows:

	2005	2004
Revenue		
PRC	465,163,441	562,293,179
Other countries	47,974,504	76,270,601
	<u>513,137,945</u>	<u>638,563,780</u>

All of the Company's assets are situated and capital expenditures are incurred in the PRC.

5. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging (crediting):

(a) Net finance (income)/costs:

	2005	2004
Interest on bank loans and other borrowings		
Repayable within five years	10,021,841	8,223,454
Interest on discounting of bills receivable	969,562	7,782,203
Bank charges	1,104,322	624,007
Interest income from Jiangsu Mudan	(10,932,351)	–
Interest from bank deposits	(5,178,260)	(5,516,089)
Interest (income)/expense from instalment sales	1,908,372	(2,136,000)
	<u>(2,106,514)</u>	<u>8,977,575</u>

(b) Other items:

	2005	2004
Auditors' remuneration	750,000	650,000
Allowance for bad and doubtful debts	37,374,406	–
Depreciation on property, plant and equipment	18,650,101	17,826,289
Loss on disposal of property, plant and equipment	–	336,154
Operating lease rentals in respect of prepaid lease payments, properties and equipment	1,105,500	1,105,500
	<u>1,105,500</u>	<u>1,105,500</u>

6. INCOME TAX EXPENSES

(a) Income tax expenses represent:

	2005	2004
PRC income tax provided for the year	–	–
Deferred tax	3,759,815	6,430,712
	<u>3,759,815</u>	<u>6,430,712</u>

No provision for Hong Kong profits tax has been made in the financial statements as the Company's income neither arises in nor is derived from Hong Kong.

No provision for PRC income tax had been made as the Company did not derive any assessable profits for both years.

(b) The tax charge for the year can be reconciled to the (loss)/profit per the income statements as follows:

	2005	2004
(Loss)/profit before tax	(90,443,147)	4,611,751
Tax at applicable tax rate of 33% (2004: 33%)	(29,846,238)	1,521,877
Tax effect of expenses not deductible for tax purpose	–	4,908,835
Tax effect of tax losses not recognised	29,846,238	–
Over provision of deferred taxation	3,759,815	–
	<u>3,759,815</u>	<u>6,430,712</u>
Tax charge for the year	<u>3,759,815</u>	<u>6,430,712</u>

7. DIVIDEND

No dividend was paid or proposed for the year ended 31 December 2005, nor has any dividend been proposed since the balance sheet date (2004: Nil).

8. BASIC LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to the equity holders of the Company of RMB94,202,962 (2004: RMB1,818,961) and based on the weighted average number of shares in issue during the year of 284,800,000 (2004: 284,800,000).

The amount of diluted loss per share is not presented as there were no dilutive potential ordinary shares outstanding for both years.

9. TRADE AND OTHER RECEIVABLES

	2005	2004
Trade debtors and bills receivable	124,801,543	145,208,008
Less: Allowance for bad and doubtful trade receivable	(46,767,790)	(12,434,187)
	<u>78,033,753</u>	132,773,821
Advance deposits to suppliers	16,650,512	28,009,880
Other debtors	5,423,232	5,851,639
	<u>100,107,497</u>	<u>166,635,340</u>

An ageing analysis of trade debtors and bills receivable (net of allowance for bad and doubtful debts) is as follows:

	2005	2004
Within 3 months	28,172,515	28,330,003
Over 3 months but less than 6 months	27,932,994	15,582,428
Over 6 months but less than 1 year	12,824,890	42,816,207
Over 1 year but less than 2 years	4,533,937	40,360,276
Over 2 years	4,569,417	5,684,907
	<u>78,033,753</u>	<u>132,773,821</u>

Customers are normally granted credit terms of 3 months to 12 months (2004: 3 months to 12 months), depending on the Company's assessment of the credit worthiness of individual customers. In addition, certain established customers with good repayment record are allowed to settle by instalments over a period of not more than 24 months (2004: not more than 24 months).

10. TRADE AND OTHER PAYABLES AND BILLS PAYABLES

	2005	2004
Trade payables	91,224,595	104,749,511
Bills payable	351,658,940	320,501,232
Accrued salaries, bonus and welfare fund	14,691,874	22,174,416
Other payables	51,517,621	34,869,083
	<u>509,093,030</u>	<u>482,294,242</u>

No bills payable as at 31 December 2005 (2004: RMB89,000,000) were guaranteed by Jiangsu Mudan.

The Company has invoiced RMB757,715,858 bills payable while the total purchase of the year is only RMB491,961,284.

An ageing analysis of trade creditors and bills payable is as follows:

	2005	2004
Due within 3 months	400,702,376	320,542,307
Due after 3 months within 6 months	20,495,813	104,708,436
Due after 6 months within 1 year	5,868,297	-
Due over 1 year	15,817,049	-
	<u>442,883,535</u>	<u>425,250,743</u>

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

(Expressed in Renminbi)

	Share capital	Statutory surplus reserve	Statutory public welfare fund	(Accumulated losses) retained earnings	Total capital and reserves
Balance at 1 January 2004	284,800,000	15,165,846	15,165,846	40,730,715	355,862,407
Transfer from retained earnings	–	255,795	255,795	(511,590)	–
Loss for the year	–	–	–	(1,818,961)	(1,818,961)
Balance at 31 December 2004 and 1 January 2005	284,800,000	15,421,641	15,421,641	38,400,164	354,043,446
Loss for the year	–	–	–	(94,202,962)	(94,202,962)
Balance at 31 December 2005	284,800,000	15,421,641	15,421,641	(55,802,798)	259,840,484

BUSINESS REVIEW AND PROSPECT

After a review of relevant information of the Company by the Directors, 2005 Business Review was as follows:

1. Brand awareness was increased

In 2005, the Company participated in the Second National Bus Racing, MD6608 恒星 Series was awarded “China Countryside Bus Prize”, MD6120 月亮神 Series city low panel bus was awarded “China City Bus Bronze Medal”, MD6123 都市陽光 Series high speed large luxurious bus was awarded “China Travel Bus Best Outlook Prize”. And through providing service cars for the Tenth Sport Competition of the People’s Republic of China, the brand popularity of Mudan’s automobiles was significantly enhanced.

2. Quality of products were improved to a certain extent

During the year 2005, the Company persisted on implementing quality improvement projects, discovering problems continuously according to PDCA procedures, solving problems constantly, the overall level of the quality of products was further improved. Through cooperation with research and development institutes like Jiangsu University, several car bodies of leading car models were improved so that the car body structures were rendered more reasonably.

3. Overseas marketing was further strengthened

In 2005, the Company further improved the marketing channels through the opportunity of visits of overseas customers. In order to develop overseas market steadily, the Company paid a rather high price to conduct a rolling test of the whole car, and passed security certification of overseas clients with good results. In 2005, the Company set up the first overseas service team in Mudan's history, and carried out training and performance evaluation for car repair, day to day English and etc. to provide support and protection for overseas marketing.

4. Further enhanced technical management platform

With the Company's dedications, Mudan Auto Technical Centre successfully passed the evaluation by the Expert Group of Jiangsu Province Technical Centre and became the eighth provincial technical centre. With the improvement and extension of product series such as 太陽神、月亮神 newly developed in 2004, we achieved complete upgrade of product structure.

Based on the Company's present situation, the Board of Directors is of the opinion that Mudan Auto brand has a history of over 30 years, it enjoys rather high reputation in both mainland China and abroad, Mudan Auto has apparent competitive advantage in production facilities, manufacturing skills and product quality etc.

Although the Company is now in the production suspension stage, the Board of Directors is of the view that if there is sufficient injection of capital, the Company can re-start production business and can further strengthen internal control, standardize management of the company, Mudan will be able to further develop and grow.

MARKET OVERVIEW

Upon review of the relevant information of the Company by the Directors, the major factors influencing the bus market in 2005 were as follows:

1. Ongoing Influence of Macro-Economic Adjustment Measures

The State implemented the macro-economic adjustment measures, and controlled capital flows in circulating sectors. This had produced an obvious restricting effect to the bus purchase behaviour of bus operators and the credit environment for the sales of buses.

2. Influence of Excess Transportation Capacity

Because of rapid improvement of speeds of railways and the rapid growth in the demand for buses in previous years, excess transportation capacity has been a controversial phenomenon in public road transportation in the PRC. Operation efficiency for bus operators was limited to a certain extent, which surpassed the demand for the purchase of bus.

3. Increased environmental standard

Both the State Administration of Environmental Protection and local environmental protection authorities are practicing product listing management and prohibit unlisted bus models from being sold and used in relevant regions.

4. Development of new products

Upon review of the relevant information by the Company, in 2005, new products researched and developed by the Company included 8 models of the MD6601 series of light-sized buses, 1 model of the MD6701 series of light-sized buses, 5 models of the MD6701 series of medium-sized buses, 6 models of the MD6800 series of medium-sized buses, 1 model of the MD6900 series of medium-sized buses, 2 models of the MD6100 series of large-sized bus, 4 models of the MD6120 series of large-sized bus, totalling 27 products. All these products were approved by the respective governmental departments.

FINANCIAL REVIEW

Revenue

Total revenue for the fiscal year 2005 amounted to approximately RMB513,137,945, representing a decrease of 19.6% compared to that of RMB638,563,780 generated in 2004. Of which, turnover from light, medium and large-sized series of buses amounted to RMB215,237,792, RMB239,517,391 and RMB58,382,762 respectively (2004: RMB285,170,788, RMB278,259,380 and RMB75,133,612 respectively). Sales for light-sized, medium-sized and large-sized series of buses decreased by 24.5%, 13.9% and 22.3% respectively.

The Company recorded a total loss before tax in the amount of RMB90,443,147 in 2005 (2004: profit before tax of RMB4,611,751).

Cost of sales and gross profit

Cost of sales decreased from approximately RMB581,899,584 in 2004 to approximately RMB495,583,573 in 2005. Marginal profit of the Company's products decreased from 8.9% in 2004 to 3.4% in 2005.

Other operating income

Other operating income for the fiscal year 2005 amounted to approximately RMB6,111,464 (2004: RMB19,354,223), which included the sale of scrap materials of approximately RMB4,529,656 (2004: RMB2,055,667).

Distribution expenses and general and administrative expenses

Distribution expenses in 2005 amounted to RMB31,862,812 (2004: RMB32,930,753), representing a slight decrease of approximately 3.2% compared to the same period last year. The costs of business trips of external staff of sales department for 2005 significantly decreased 84.1% to RMB3,369,953 (2004: RMB21,118,731), however, other costs recorded a great increase proportionally, of which, advertising costs considerably increased 228% to RMB11,478,908 (2004: RMB3,556,354).

The total general and administrative expenses for the fiscal year 2005 was RMB79,575,935, representing a great increase of 178% as compared to the amount of RMB28,649,194 in the corresponding period of 2004. Such a great increase was mainly attributable to the impairment for bad and doubtful debts of RMB37,374,406 for the year 2005.

The Company's expenses on salaries, wages and bonus for the fiscal year 2005 amounted to RMB38,839,633 as compared to RMB52,679,063 in 2004, representing a decrease of RMB13,839,430.

In the fiscal year of 2005, the net finance income of RMB2,106,514 comprised bank interests and interests on other borrowings, bank charges and interest income, representing approximately 0.4% of sales. Net finance costs amounted to RMB8,977,575 in year of 2004. As interests on amounts due from the ultimate holding company were first included in 2005, the net finance costs in 2005 were RMB10,932,351.

Material investments and capital assets

The Company did not have any plan for material investments or acquisition of material capital assets for 2005 and in the foreseeable future.

Exposure in exchange rate fluctuations

The Company has foreign currency sales, which expose the Company to foreign currency risk. Certain bank balances and trade receivables of the Company are denominated in foreign currencies. The Company currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should be need arises.

Significant investments held

The Company has no significant investments held during the year of 2005.

Financial resources and liquidity

The financial position of the Company comprised shareholders' equity which amounted to approximately RMB259,840,484 as at 31 December 2005 (2004: RMB354,043,446). Current assets amounted to approximately RMB730,533,147 as at 31 December 2005 (2004: RMB782,446,534), of which approximately RMB107,288,298 (2004: RMB58,547,175) were cash and bank balances. Approximately RMB318,346,739 (2004: RMB263,286,176) was placed as pledged deposits to secure certain banks in issuing bill payable of approximately RMB351,658,940 as at 31 December 2005 (2004: RMB320,501,232). As at 31 December 2005, the Company had a short-term bank loans and long-term bank loans of about RMB170,100,000 (2004: RMB166,850,000) and Nil (2004: Nil) respectively. The short-term bank loans were repayable within one year.

Contingent liabilities

Up to the date of this Announcement, the Company had contingent liabilities amounting to approximately RMB6,339,684 in respect of involving in a number of litigations in the PRC, the details of which are stated as follows:

- i. On or about 17 September 2007, 湖南汽車車橋廠 (Human Vehicle Chassis Factory) filed its writ with 天津市人民法院 (the Jinshi City People's Court against the Company. It is stated in the writ that the Company has failed to pay a total of RMB331,193 to the plaintiff for payment of the chassis supplied by the plaintiff to the Company;
- ii. On or about 5 September 2007, 東風襄樊旅行車有限公司 (Dongfeng Xiangfan Traveling Vehicles Limited) filed its writ with 襄樊市襄城區人民法院 (the Xiangfan City Xiangcheng Country People's Court) against the Company. It is stated in the writ that the Company has failed to pay to total of RMB1,539,901 to the plaintiff for payment of the chassis supplied by the plaintiff to the Company;
- iii. On or about 23 August 2006, 王東明 (Wang Dongming) filed its writ with 金鄉縣人民法院 (the Jinxiang County People's Court) against the Company. It is stated in the writ that the Company has paid the initial deposit of a bus with the brand name of Company in 2001. In 2002, without the consent of the plaintiff, the Company drove away the bus and the bus was not returned to the Plaintiff. The amount claimed by the plaintiff was RMB600,000;
- iv. On or about 21 September 2007, 蘇州市工正金屬材料有限公司 (Suzhou City Gongzheng Metal Materials Limited) filed its writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company. It is stated in the writ that the Company has failed to pay to total of RMB636,698 to the plaintiff for payment of metal accessories supplied by the plaintiff to the Company;

- v. On or about 21 September 2007, 蘇州市司傳金屬製品有限公司 (Suzhou City Sichuan Metal Products Limited) filed its writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company. It is stated in the writ that the Company has failed to pay a total of RMB 734,718 to the plaintiff for payment of metal accessories supplied by the plaintiff to the Company;
- vi. On or about 30 October 2007, 蘇州工業園區富事達塑業有限公司 (Suzhou Industrial Area Fushida Plastic Limited Liability Company) filed its writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company. It is stated in the writ that the Company has failed to pay a total of RMB 66,256 to the plaintiff for payment of wiring accessories supplied by the plaintiff to the Company;
- vii. On or about 24 July 2007, 萬茂禮 (Wan Maoli) filed its writ with 南昌市青雲譜區人民法院 (the Nanchang City Qingyunpu County People's Court) against the Company, the Company's insurer and a staff of the Company. It is stated in the writ that a staff of the Company has knocked down a pedestrian, namely, the plaintiff on 12 February 2007. The plaintiff sought a compensation of a total of RMB 155,745.
- viii. On or about 17 October 2007, 無錫市凱龍汽車新技術有限公司 (Wuxi City Hai Long Vehicles New Technology Company Limited) filed its writ with 惠山區人民法院 (Huishan County People's Court). It is stated in the writ that the Company has failed to pay a total of RMB38,700 for the accessories supplied by the plaintiff to the Company.
- ix. On or about 5 November 2007 無錫市凱瑞汽車設備制造有限公司 (Jiangsu Zujei Painting Company Limited) filed its writ with 惠山區人民法院 (Huishan County People's Court) against the Company. It is stated in the writ that the Company has failed to pay a total of RMB84,480 for the accessories supplied by the plaintiff to the Company.
- x. On or about 11 December 2007, 江蘇足跡塗料有限公司 (Jiangsu Zujei Painting Company Limited) filed its writ with 張家港市人民法院 (the Zhangjiagang City People's Court) against the Company. It is stated in the writ that the Company has failed to pay the debt of a total of RMB1,513,604 for the painting supplied to the Company.
- xi. Presently, part of the bank accounts of the Company have already been frozen following filing of the above lawsuits. Up to 17 March 2008, the amount frozen is about RMB2,920,437. As at the date of this announcement, the Company does not have enough cash to satisfy in full the claim stated in the writs above.

Charges on assets

As at 31 December 2005, the short-term bank loans of RMB128,000,000 was unsecured (2004: RMB138,850,000), and short-term bank loans of RMB42,100,000 were secured by factory buildings with net book values of approximately RMB32,171,066 (2004: RMB34,289,753).

Gearing ratio

The Company's gearing ratio, which is calculated from total liabilities divided by total net assets, was 2.6 (2004: 1.9) as at 31 December 2005.

Capital structure

During the year, there has been no change in the Company's share capital. As at 31 December 2005, the Company's operations were financed mainly by shareholders' equity and internal resources. The Company will continue to adopt its treasury policy of placing the Company cash and cash equivalents in interest bearing deposits.

Employee information

During the year, the average number of employees of the Company was 2,175 (2004: 2,132). Employees' remuneration included Directors' emoluments and the relevant cost of all staff of approximately RMB46,652,957 (2004: RMB62,336,892). They were remunerated in accordance with their performance and market condition. Officially employed staff is entitled to social insurance and provident fund. The Company does not have share option scheme.

Disclosure of trade receivables pursuant to rules 17.15 and 17.17 of the GEM Listing Rules

As at 31 December 2005, there were 284,800,000 shares of the Company in issue. Based on the closing price of the Company's shares of HK\$0.34 per share on 29 March 2005, the date on which the trading of the shares of the Company was suspended, the total market capitalization for the Company was approximately HK\$96,832,000 as at 31 December 2005.

As at 31 December 2005, trade receivable from a customer of the Company (the "Trade Receivable"), 廣州白雲華港汽貿中心 (Guangzhou Baiyun Huagang Automobile Trade Center, the "Customer"), a company which is independent of, and not connected with, the Company, the Directors, chief executive or substantial shareholders of the Company or their respective associates (as defined in the GEM Listing Rules), amounted to approximately HK\$18,738,905 (RMB18,193,112), representing approximately 19.4% of the Company's total market capitalization as at 31 December 2005. The Company had lost contact with the Customer and the Trade Receivables had been written off on the balance sheet date.

The Trade Receivable was resulted from sales to the Customer by the Company in its ordinary course of business and on normal commercial terms. It is unsecured and interest free, and repayable on normal terms. Due to the nature of the transactions and business practice, trade receivables can only be settled after month end, and such balances need to be verified and confirmed by customers pursuant to the normal trading practices and relevant trading terms in respect of such receivables. As the Trade Receivable of the Customer is recorded as at 31 December 2005, it is subject to disclosure pursuant to the requirement under rule 17.22 of the GEM Listing Rules.

INDEPENDENT AUDITORS' REPORT

The Auditor of the Company, Lo and Kwong C.P.A. Company Limited made the disclaimer for the following qualified opinions in the independent auditors' report for the year ended 31 December 2005.

Basis for disclaimer of qualified opinions

1. The evidence available to us was limited by the matters as shown in note 25 to the financial statements which disclosed certain related party transactions. Due to lack of adequate documentary evidence, we were unable to carry out relevant procedures necessary to satisfy ourselves as to the accuracy of the disclosure in respect of items (i) and (x) to (xv) in that note. In addition, we were unable to carry out relevant procedures necessary to satisfy ourselves that the disclosure in note 25 to the financial statements is complete. As a consequence, we were also unable to carry out necessary procedures to satisfy ourselves as to whether the cash flows in connection with related party transactions as presented in the Company's cash flow statement were fairly stated.

The following information was extracted from Note 25 of the financial statements in the 2005 Annual Report of the Company to be published.

Particulars of material transactions between the Company and certain related parties in which a director or a shareholder of the company is in a position to exercise significant influence are as follows:

(Expressed in Renminbi)

	<i>Notes</i>	2005	2004
Purchases from shareholders/ a related company	<i>(i)</i>	31,922,740	55,334,245
Rent paid for prepaid lease payments	<i>(ii)</i>	905,500	905,500
Rent paid for a property	<i>(iii)</i>	100,000	100,000
Rent paid for a production line	<i>(iv)</i>	100,000	100,000
Sales of steels	<i>(v)</i>	4,898,824	–
Sales of scrap materials	<i>(vi)</i>	1,004,736	1,525,928
Sales of passenger car	<i>(vii)</i>	854,673	–
Reimbursement of electricity charges	<i>(viii)</i>	609,041	–
Acquisition of plant and equipment	<i>(ix)</i>	–	609,162
		<u>10,932,351</u>	<u>–</u>
Interest income	<i>(x)</i>	<u>10,932,351</u>	<u>–</u>

- (i) This represents purchases of raw materials and work-in-progress from the shareholders (Zhangjiagang Mudan Bus Parts Co., Ltd, Zhangjiagang Automobile Accessories Factory) and a related company (Zhangjiagang Jishun Transportation Industrial Co., Ltd.) during the year.

- (ii) The Company has entered into lease agreements with Jiangsu Mudan whereby the Company is granted rights to use four (2004: three) pieces of land in the PRC on which its buildings are erected for a term of 20 years. The annual fixed rental payment for the year ended 31 December 2005 was RMB 905,500 (2004: RMB 905,500).
- (iii) The Company has entered into a lease agreement with Jiangsu Mudan whereby the Company is granted rights to use a property in the PRC for a term of 20 years. The annual fixed rental payment for the year ended 31 December 2005 was RMB 100,000 (2004: RMB 100,000).
- (iv) The Company has entered into a lease agreement with Jiangsu Mudan whereby the Company is granted rights to use a production line in the PRC for a term of 20 years. The annual fixed rental payment for the year ended 31 December 2005 was RMB 100,000 (2004: RMB 100,000).
- (v) For the year ended 31 December 2005, the Company sold steel to a shareholder (Zhangjiagang Mudan Bus Parts Co., Ltd) and a related company (Zhangjiagang Jishun Transportation Industrial Co.,Ltd) which amounted to RMB 4,898,824 (2004: nil).
- (vi) For the year ended 31 December 2005, the Company sold certain scrap materials to a shareholder (Zhangjiagang Mudan Bus Parts Co., Ltd.) which amounted to RMB 1,004,736 (2004: RMB 1,525,928).
- (vii) For the year ended 31 December 2005, the Company sold the passenger cars to certain shareholders (Zhangjiagang Mudan Bus Parts Co., Ltd, Zhangjiagang Mudan Automobile Accessories Co., Ltd and Zhangjiagang Automobile Accessories Co., Ltd) which amounted to RMB 854,673 (2004: Nil)
- (viii) For the year ended 31 December 2005, the Company provided the other services to one shareholder (Zhangjiagang Mudan Bus Parts Co., Ltd) and a related company (Zhangjiagang Jishun Transportation Industrial Co.,Ltd) which amounted to RMB609,041. The other services included reimbursement of electricity charges.
- (ix) During the year ended 31 December 2005, no plant and equipment was purchased from Jiangsu Mudan and other related companies. During the year ended 31 December 2004, the Company acquired two motor vehicles and one production line from Jiangsu Mudan at an amount of RMB 100,000 and RMB 509,162.
- (x) During the year ended 31 December 2005, the Company received interest income from its ultimate holding company, Jiangsu Mudan totalling RMB 10,932,351. The interest was calculated based on 8% of the balances due as at 31 December 2005. During the year ended 31 December 2004, no interest income was received from the ultimate holding company.
- (xi) For the year ended 31 December 2005, the Company utilised its bank's acceptance bills facilities and instructed its bankers to issue certain bank's acceptance bills to Jiangsu Mudan. In addition, the Company transferred certain of its bank's acceptance bills, which the Company received from its customers, to Jiangsu Mudan. The total value of bank's acceptance bills

issued/transferred to Jiangsu Mudan amounted to RMB 499,008,000 (2004: RMB 395,080,685). On the other hand, the Company received certain bank's acceptance bills from Jiangsu Mudan, totalling RMB82,000,000 (2004: RMB 242,799,800). The bank acceptance bills issued/received in this respect were recorded through the current account with Jiangsu Mudan without cash payment/receipt. In consequence, the Company provided certain interest-free advances to Jiangsu Mudan during the year ended 31 December 2005. The maximum outstanding balance of the advances to Jiangsu Mudan was RMB126,110,220 during the year (2004: RMB177,782,985) and the outstanding balance of the advances was RMB126,110,220 at 31 December 2005 (2004: RMB 152,280,885).

- (xii) For the years ended 31 December 2004 and 2005, Jiangsu Mudan allowed the Company to use the trademark of "Mudan", certain of its sales offices, office equipment and public facilities at nil consideration.
 - (xiii) For the year ended 31 December 2005, Jiangsu Mudan received sales receipts on behalf of the Company which amounted to RMB6,055,700 (2004: RMB70,630,102).
 - (xiv) For the year ended 31 December 2005, the Company received sales receipts on behalf of Jiangsu Mudan which amounted to RMB1,266,110. (2004: RMB1,227,975)
 - (xv) For the year ended 31 December 2005, Jiangsu Mudan made payment for material on behalf of the Company which amounted to RMB3,450,439 (2004: RMB34,321,299).
 - (xvi) For the year ended 31 December 2005, Jiangsu Mudan made payments for certain expenses on behalf of the Company which amounted to RMB5,877,008 (2004: RMB13,267,067)
 - (xvii) As at 31 December 2005, certain bank loans of the Company totalling RMB128,000,000 (2004: RMB 80,000,000) were guaranteed by Jiangsu Mudan.
2. We were not able to form a view whether the property, plant and equipment of RMB212,432,426 were fairly stated at 31 December 2005. In light of the suspension of production since October 2007 and the continuing operating loss experienced by the Company regarding for two years ended 31 December 2006 and 2007, management has carried out an impairment review of its property, plant and equipment. However, we have not been able to obtain adequate supporting information from management in respect of its assessment on the value in use of property, plant and equipment with carrying amount of RMB212,432,426 as of 31 December 2005 and therefore unable to satisfy ourselves whether the property, plant and equipment were fairly stated at the balance sheet date and whether any impairment loss for the year ended 31 December 2005 should be recognised.
3. As disclosed in "Contingent Liabilities" above, up to the date of this report, the Company had contingent liabilities amounting to approximately RMB6,339,684 in respect of involving in a number of litigations in the PRC. Since, we have been unable to carry out the necessary audit procedures to assure the completeness of the litigation claims, we are unable to satisfy ourselves as to whether or not the amount of contingent liabilities of RMB6,339,684 up to the date of this report is fairly stated.

MATERIAL FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered adequacy of the disclosure made in the financial statements concerning the basis of preparation of financial statements made by the directors. As explained in note 2 to the financial statements, the directors have given careful consideration to the impact of the future liquidity of the Company and the continuous financial support from the proposed acquirers, namely Chengdu New Dadi Motor Company Limited (“Chengdu New Dadi”), Foshan City Shunde Ganghua Shiye Company Limited (“Shunde Ganghua”), Foshan City Heli Car Trading Company Limited (“Foshan Heli”) and Foshan City Shunde Zhongyu Car Trading Company Limited (“Shunde Zhongyu”) to resume the business operation. The financial statements have been prepared on a going concern basis, the validity of which depends on the continuing financial support from the proposed acquirers. The financial statements do not include any adjustments that would be necessary if the basis was no longer to be appropriate. Details of the circumstances relating to this fundamental uncertainty are described in note 2 to the financial statements.

We consider that appropriate disclosure have been made, but the inherent uncertainties surrounding the circumstances under which the Company might successfully continue to adopt the going concern basis are so extreme that we have disclaimed our opinion.

DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY FINANCIAL STATEMENTS

Because of the significance of the matters described in the paragraph related to the basis for disclaimer of opinion and the paragraph related to the material fundamental uncertainty relating to going concern basis, we do not express an opinion on the financial statements as to whether they give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2005 and of the loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion, the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SHARES OF THE COMPANY

During the year, the Company and its subsidiaries have not purchased, sold or redeemed any of its listed shares.

AUDIT COMMITTEE

The Audit Committee of the Company was established with written terms of reference based upon the guidelines published by the Hong Kong Institute of Certified Public Accountants. The primary duties of the Committee were to review and monitor the financial reporting process and internal control of the Company. The Audit Committee held 4 meetings for the year ended 31 December 2005. As at 31 December 2005, Mr. JIANG Lei, Mr. HUANG Zhen Hua and Ms. XIAO Wei Hong were members of the Audit Committee of the Company. However, they were dismissed from appointments at the Extraordinary General Meeting held on 3 March 2008. As at the date of this Announcement, the Audit Committee of the Company comprised three Independent Non-executive Directors, namely Mr WANG Cheng Cai, Mr GAO Xue Fei and Mr YAO Zhi Ming, of which Mr. WANG Cheng Cai is also the Chairman. The Company's financial statements for the year ended 31 December 2005 had been reviewed by the Audit Committee which was of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosure had been made.

CODE OF CONDUCT FOR DIRECTORS CARRYING OUT SECURITIES TRANSACTIONS

During the year ended 31 December 2005, the current Board did not discover any non-compliance with the standard conditions of requirements of transactions set out in rules 5.48 to 5.67 of the GEM Listing Rules. A code of conduct has been adopted with respect to the securities transactions carried out by directors.

COMPETING INTERESTS

The current Board discovered that none of the Directors, supervisors, management shareholders or substantial shareholders of the Company and their respective associates has any interest in any businesses which directly or indirectly compete with the business of the Company for the year ended 31 December 2005.

CORPORATE GOVERNANCE PRACTICE

Save for those deviations disclosed below, the current Board of Directors has not discovered any non-compliance with the provisions of the Code on Corporate Governance Practices (the "Corporate Code") set out in the GEM Listing Rules by the Company.

CHAIRMAN AND MANAGING DIRECTOR

The former Chairman of the Company, Mr SUN Min Biao was also the Chief Executive of the Company as at 31 December 2005. Therefore during the year, the Company did not comply with the requirement of Code provision A.2.1 of the Corporate Code that the posts of chairman and the chief executive must be separated. The reason is that the Company has not yet found other senior management to act as chief executive. Mr SUN Min Biao's posts were dismissed on the Extraordinary General Meeting held on 3 March 2008 and the post of chairman is assumed by Mr KUO Zhi Yung on the same date. In Addition, Mr LI Jing Shan was appointed as Chief Executive (General Director of the Company) by the Company on 10 April 2008.

REMUNERATION COMMITTEE

The Company did not set up any Remuneration Committee for the year ended 31 December 2005. Therefore, the Company did not comply with the requirement of Code provision B.1.1 of the Corporate Code. However, on 10 April 2008, the Company set up Remuneration Committee pursuant to the Corporate Code, all members were Independent Non-executive Directors. The Remuneration Committee comprised Mr WANG Cheng Cai, Mr GAO Xue Fei and Mr YAO Zhi Ming, Mr GAO Xue Fei also acted as Chairman of the Remuneration Committee. The Remuneration Committee decided to hold at least one meeting each year.

The roles and functions of the Remuneration Committee include determining the emoluments of Executive Directors, including benefits in kind, right of retirement and compensation (including any compensation for dismissal or termination of appointment) and determining the remuneration of Non-executive Directors and Independent Non-executive Directors and the Company's supervisors and senior management officers. The Remuneration Committee should consider factors such as the remuneration of comparable companies, time contributed by and functions of the Directors, employment status of the Company and the feasibility of remuneration based on performance etc.

Prior to the establishment of the Remuneration Committee, the Chairman of the Company was responsible for reviewing the remuneration of Executive Directors, Non-executive Directors and Independent Non-executive Directors and the Company's supervisors and senior management officers and submitting for approval by the Board of Directors in meetings of the Board of Directors in which Independent Non-executive Directors attended.

NOTIFICATION OF THE MEETING

According to the Code provision A.1.3 of the Corporate Code, the Company should send notifications to every Director 14 days before the regular Board meeting is held. The current Directors cannot confirm whether notifications had been sent at least 14 days before the regular meetings of the Board of Directors during 2005, but the current Directors pledged that notifications of Board meetings will be sent at least 14 days before regular meetings of the Board of Directors from now on.

INTERNAL CONTROL

During the year, as the internal control system of the Company was imperfect, the Company has arranged to review the effectiveness of the internal control system of the Group to ensure that the internal control system is adequate and effective. The Company will hold regular meetings to discuss the finance, operation and risk management control. The Audit Committee will also review the internal control system and assess its adequacy and effectiveness as well as the work carried out by it.

By order of the Board
Mudan Automobile Shares Company Limited
KUO Zhi Yung
Chairman

Zhangjiagang, Jiangsu Province, the PRC
10 April 2008

As at the date hereof, the Board comprises nine (9) directors, of which three (3) are executive directors, namely Mr. GUO Zhi Rong (Chairman of the Board), Mr. HOU Cheng Bao and Mr. JIANG Bin; three (3) are non-executive directors, namely Mr. LI Jian Hua, ZHU Hui Liang and Mr. ZHOU Pei Lin and three (3) are independent non-executive directors, namely Mr. WANG Cheng Cai, Mr. GAO Xue Fei and Mr. YAO Zhi Ming.

The announcement will remain on the GEM website at <http://www.hkgem.com> on the “Latest Company Announcements” page for at least 7 days from the date of its posting and will be published on the website of the Company (<http://www.mudanauto.com>).

* *For identification purpose only*